

**RURAL WATER
ASSOCIATION OF UTAH**

Financial Statements

December 31, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water Association of Utah
76 Red Pine Drive
Alpine, UT 84004

We have audited the accompanying statements of financial position of Rural Water Association of Utah (a nonprofit organization) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water Association of Utah as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007, on our consideration of Rural Water Association of Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Rural Water Association of Utah, taken as a whole. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of Expenditures of Federal Awards and the graphs are not required parts of the financial statements of Rural Water Association of Utah. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Hawkins Cloward & Simister, LC

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CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2007

FINANCIAL STATEMENTS

The financial statements as required by generally accepted accounting principles in the United States of America include:

Statements of Financial Position

Statements of Activities

Statements of Cash Flows

RURAL WATER ASSOCIATION OF UTAH

Statements of Financial Position

December 31, 2006 and 2005

ASSETS

	2006	2005
Current assets		
Cash and cash equivalents (Notes 1 and 2)	\$ 49,807	\$ 29,671
Accounts receivable	12,222	8,530
State grants receivable	66,057	75,013
Federal grants receivable	107,717	116,819
Deposits	11,839	25,140
Total current assets	<u>247,642</u>	<u>255,173</u>
Net property and equipment (Notes 1 and 3)	<u>436,128</u>	<u>426,449</u>
Total assets	<u>\$ 683,770</u>	<u>\$ 681,622</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 18,682	\$ 10,714
Deferred revenue	73,725	65,940
Accrued liabilities	32,691	18,626
Current portion long-liabilities (Note 8)	42,048	42,440
Total current liabilities	<u>167,146</u>	<u>137,720</u>
Long-term liabilities (Note 8)		
Notes payable	258,830	261,302
Less: current portion	(42,048)	(42,440)
Total long-term liabilities	<u>216,782</u>	<u>218,862</u>
Total liabilities	<u>383,928</u>	<u>356,583</u>
Net assets		
Temporarily restricted net assets (Note 1)	8,802	7,034
Unrestricted net assets		
Designated for sick leave (Note 1)	84,696	84,696
Undesignated	<u>231,542</u>	<u>238,779</u>
Total net assets	<u>299,842</u>	<u>325,040</u>
Total liabilities and net assets	<u>\$ 683,770</u>	<u>\$ 681,622</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

RURAL WATER ASSOCIATION OF UTAH

Statements of Activities

For the years ended December 31, 2006 and 2005

	2006	2005
Unrestricted net assets		
Revenues		
Federal and state grants	\$ 919,681	\$ 951,774
Membership dues	177,500	170,755
Annual meeting	299,752	273,670
Advertising	20,725	7,210
Training fees	35,932	32,840
Summer conference	34,206	30,910
Interest income	2,278	1,735
Other	5,577	4,941
Net assets released from restriction	3,000	5,770
Total revenues	<u>1,498,651</u>	<u>1,479,605</u>
Expenses		
Salaries and wages	781,460	758,667
Depreciation	45,427	29,931
Annual conference	205,383	180,423
Summer conference	14,402	30,948
Auto	45,432	24,882
Board	25,947	22,341
Committees	4,834	7,447
Dues, fees and licenses	14,488	12,513
Insurance	7,809	12,495
Legal and professional	22,281	20,781
Magazines and publications	35,074	23,200
Office	21,900	35,413
Postage	15,957	15,666
Supplies and materials	57,893	64,961
Telephone	16,734	17,082
Training	24,046	24,149
Travel	154,117	165,439
Utilities	4,679	5,757
Water rally	11,133	17,626
Interest	16,621	14,675
Total expenses	<u>1,525,617</u>	<u>1,484,395</u>
Change in unrestricted net assets	<u>(26,966)</u>	<u>(4,790)</u>
Temporarily restricted net assets		
Donations	4,768	5,091
Net assets released from restriction	<u>(3,000)</u>	<u>(5,770)</u>
Change in temporarily restricted net assets	<u>1,768</u>	<u>(679)</u>
Change in Net Assets	(25,198)	(5,469)
Net assets, beginning of year	<u>325,040</u>	<u>330,509</u>
Net assets, end of year	<u>\$ 299,842</u>	<u>\$ 325,040</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

RURAL WATER ASSOCIATION OF UTAH

Statements of Cash Flows

For the years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ (25,198)	\$ (5,469)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	45,427	29,931
Gain on sale of fixed asset	(3,629)	
Change in operating assets and liabilities		
Accounts receivable	(3,692)	(4,061)
State grants receivable	8,956	21,189
Federal grants receivable	9,102	(60,308)
Deposits	13,302	(7,732)
Prepaid expenses		2,509
Accounts payable	7,968	5,999
Accrued liabilities	14,065	(11,294)
Deferred revenue	7,785	7,105
Net cash provided (used) by operating activities	<u>74,087</u>	<u>(22,131)</u>
Cash flows from investing activities		
Purchase of property and equipment	(12,000)	(15,185)
Proceeds from the sale of fixed assets	8,370	
Net cash used by investing activities	<u>(3,630)</u>	<u>(15,185)</u>
Cash flows from financing activities		
Repayment of notes payable	(50,320)	(40,976)
Net cash used by financing activities	<u>(50,320)</u>	<u>(40,976)</u>
Net decrease in cash and cash equivalents	20,137	(78,292)
Cash and cash equivalents, beginning of year	<u>29,671</u>	<u>107,963</u>
Cash and cash equivalents, end of year	<u>\$ 49,807</u>	<u>\$ 29,671</u>

Supplemental cash flow information

The Association paid interest during the year ended December 31, 2005 in the amount of \$14,675
The Association paid interest during the year ended December 31, 2006 in the amount of \$16,621
The Association purchased vehicles with notes payable in 2006 and 2005.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

RURAL WATER ASSOCIATION OF UTAH
Notes to the Financial Statements
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Rural Water Association of Utah (the Association) have been prepared on the accrual basis following the accounting principles generally accepted for nonprofit organizations in the United States of America and present the financial position, the results of operations, and the cash flows of the Association.

Reporting Entity

Rural Water Association of Utah, a nonprofit organization, with its office located in Alpine, Utah was incorporated on August 11, 1980, for the purpose of, but not limited to, providing technical assistance to rural drinking water systems, both in operations and in the dissemination of information throughout the State of Utah.

Basis of Accounting

The Association maintains its records and prepares its annual financial report on the accrual basis of accounting. On the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Cash and Cash Equivalents

The Association considers all demand deposits and certificates of deposit to be cash and cash equivalents.

Fixed Assets

The Association defines fixed assets as property with an initial purchase price of \$5,000 or greater. Fixed assets are recorded on the books at cost. Donated fixed assets are recorded at estimated fair market value at the time of donation. Depreciation of fixed assets is calculated over the estimated useful lives of the assets using the straight-line method. Upon the sale or retirement of fixed assets, the related asset costs and accumulated depreciation are removed from the applicable accounts and gain or loss on the disposal is recorded.

Income Taxes

The Association is a tax-exempt organization under Internal Revenue Code §501(a) and is classified as a §501(c)(3) public charity.

Allocation of Costs

Direct costs are charged directly to the appropriate program and indirect costs are allocated to the programs based on predetermined allocation rates. Certain expenses that cannot be charged to a specific program are recorded as supporting service expenses.

RURAL WATER ASSOCIATION OF UTAH

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The statements of activities report the changes in the Association's net assets by each class of net assets (unrestricted, temporarily restricted, and permanently restricted) for the year. They also report information about the Association's revenues, gains, losses, expenses, and reclassifications. The Association doesn't have any permanently restricted net assets.

Revenues from providing services are recorded in the financial statements as increases in unrestricted net assets when amounts are realized or realizable and are earned. Contributions are recognized when a contribution is received or when an unconditional promise to give assets is received. Contributions are reported within the unrestricted net asset class unless they are restricted for a specific use by the donor. Thus, contributions may represent unrestricted, temporarily restricted, or permanently restricted support, depending on the presence or absence of donor-imposed restrictions.

Expenses are always reported as decreases in unrestricted net assets, including those expenses incurred to satisfy a donor's restriction.

Gains and losses generally result from sales of equipment and are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

Expirations of donor restrictions, either time or purpose restrictions, are generally reported as simultaneous reclassifications between temporarily restricted net assets and unrestricted net assets. Reclassifications are reported as separate items on the statements of activities.

No allowance for doubtful accounts receivable has been made since management believes all amounts will be collected in the near future. The policy for determining when receivables are past due is based on the most recent payments received.

RURAL WATER ASSOCIATION OF UTAH
Notes to the Financial Statements
December 31, 2006 and 2005

Net Assets

Net assets can be used to further the purposes of the Association. The Association has \$8,802 and \$7,034 temporarily restricted net assets for the purpose of research and education at December 31, 2006 and 2005, respectively. The Board has designated \$84,696 of net assets to cover estimated sick leave at December 31, 2006 and 2005.

Reclassifications

Certain data for the prior year has been reclassified to conform to the December 31, 2006 presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents that potentially subject the Association to credit risk include cash on deposit in checking and savings accounts and certificates of deposit. The cash bank balances at December 31, 2006 and 2005 were \$15,174 and \$34,368, respectively.

At December 31, 2006 and 2005, the Association held various certificates of deposit with varying maturity dates of six months to two years totaling \$49,306 and \$52,113, respectively. The carrying amount of the certificates of deposit approximate fair value. All checking, savings, and certificates of deposit balances, are insured by the Federal Deposit Insurance Corporation.

NOTE 3 – FIXED ASSETS

Fixed assets are summarized as follows:

	2006	2005	Life
Building	\$ 349,508	\$ 349,888	40
Computers	2,396	14,286	3-5
Equipment	55,396	42,587	3-10
Furniture and fixtures	13,757	16,101	5-15
Vehicles	213,145	183,169	5
Accumulated depreciation	<u>(198,074)</u>	<u>(179,582)</u>	
Total fixed assets	<u><u>\$ 436,128</u></u>	<u><u>\$ 426,449</u></u>	

RURAL WATER ASSOCIATION OF UTAH
Notes to the Financial Statements
December 31, 2006 and 2005

NOTE 4 – DEFERRED COMPENSATION PLANS

On January 1, 1998, the Association established a 401(k) plan. Employees who meet certain age and service requirements are eligible to participate in the plan. For the years ended December 31, 2006 and 2005, contributions by employees were \$22,731 and \$28,390, respectively, and contributions by the Association were \$30,530 and \$35,897, respectively.

NOTE 5 – ECONOMIC DEPENDENCY

The Association receives much of its revenue as a recipient of grants from public sources; these grants represent 61% and 64% of total revenues for the years ended December 31, 2006 and 2005, respectively.

NOTE 6 – DONATED SERVICES

Donated services are recognized as contributions when the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. No amounts have been reflected in the financial statements for donated services. Many individuals volunteer their time and perform a variety of tasks that assist the Association with specific programs and various assignments.

NOTE 7 – OPERATING LEASE

The Association has entered into an operating lease for office equipment. The lease requires payments of \$487 per month through November 2009. The lease expense for the years ended December 31, 2006 and 2005 were \$6,472 and \$6,914, respectively.

RURAL WATER ASSOCIATION OF UTAH
Notes to the Financial Statements
December 31, 2006 and 2005

NOTE 8 – NOTES PAYABLE

Note payable to Zions Bank of \$195,738, payable in monthly payments of \$1,901, including interest of 6.57%, secured by a building, maturing December 2016.	\$ 150,496
Note payable to a credit corporation of \$15,360, payable in monthly payments of \$319, including interest of 5.24%, secured by a vehicle, maturing November 2007.	2,188
Note payable to Zions Bank of \$18,882, payable in monthly payments of \$361 including interest of 5.5%, secured by a vehicle, maturing January 2010.	11,562
Note payable to Zions Bank of \$18,325, payable in monthly payments of \$359 including interest of 6.6%, secured by a vehicle, maturing March 2010.	14,009
Note payable to a credit corporation of \$22,325, payable in monthly payments of \$534 including interest of 7%, secured by a vehicle, maturing January 2009.	16,993
Note payable to a credit corporation of \$22,257, payable in monthly payments of \$533 including interest of 7.1%, secured by a vehicle, maturing October 2009.	16,954

RURAL WATER ASSOCIATION OF UTAH
Notes to the Financial Statements
December 31, 2006 and 2005

NOTE 8 – NOTES PAYABLE (CONTINUED)

Note payable to a credit corporation of \$20,998,
payable in monthly payments of \$426 including
interest of 7.85%, secured by a vehicle, maturing
July 2011. 19,778

Note payable to a credit corporation of \$26,850,
payable in monthly payments of \$544 including
interest of 7.85%, secured by a vehicle, maturing
December 2011. 26,850

\$ 258,830

Principal maturities are as follows:

Year	Principal	Interest
2007	\$ 42,048	\$ 15,879
2008	42,464	13,208
2009	44,028	10,328
2010	29,419	7,850
2011	26,354	5,878
2012	18,417	4,391
2013	19,664	3,144
2014	20,996	1,812
2015	15,440	424
	<u>\$ 258,830</u>	<u>\$ 62,914</u>

SUPPLEMENTARY INFORMATION

The supplementary information includes schedules, reports and graphs that are not required by accounting principles generally accepted in the United States of America, nor a part of the financial statements, but are presented for additional analysis.

Such statements and schedules include:

Additional Schedules

- Schedule of Expenditures of Federal Awards and Notes
- Schedule of Findings and Questioned Costs
- Schedule of Prior Audit Findings

Additional Auditors' Reports

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with *Government Auditing Standards*

- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Graphs

RURAL WATER ASSOCIATION OF UTAH
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture				
Technical Assistance and Training Grants	10.761		\$ 102,697	\$ 102,697
Technical Assistance and Training Grants	10.000	53-31ME-3-0001	210,390	<u>199,330</u>
Total Department of Agriculture				<u>302,027</u>
U.S. Environmental Protection Agency				
Training and Fellowships for the Environmental Protection Agency	66.607		94,726	94,726
Surveys, Studies, Investigations and Special Purpose Grants	66.606		94,432	94,432
Surveys, Studies, Investigations and Special Purpose Grants	66.606		95,607	<u>95,607</u>
Total Environmental Protection Agency				<u>284,765</u>
Passed through the State of Utah Division of Drinking Water				
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		60,000	60,000
Performance Partnership Grants	66.605		60,000	60,000
Capitalization Grants for Drinking Water State Revolving Funds	66.468		216,950	205,634
Water Protection Grants to States	66.474		8,000	<u>7,255</u>
Total pass through funds State of Utah				<u>332,889</u>
Total federal expenditures				<u>\$ 919,681</u>

RURAL WATER ASSOCIATION OF UTAH
Notes to the Schedule of Expenditures of Federal Awards
For the year ended December 31, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Revenues are recognized in the accounting period that qualifying expenditures occur. Expenditures are recognized in the accounting period in which the liability is incurred.

NOTE 2 - LOANS OUTSTANDING

The Association did not have any federally insured loans outstanding at year end.

NOTE 3 - NON-CASH ASSISTANCE

The Association did not receive any non-cash assistance for the year ended December 31, 2006.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Rural Water Association of Utah
76 Red Pine Drive
Alpine, UT 84004

We have audited the financial statements of Rural Water Association of Utah (a nonprofit organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated January 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Rural Water Association of Utah's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water Association of Utah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Water Association of Utah's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is

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more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2006-1, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Rural Water Association of Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and applicable governmental entities and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

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CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2007



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Rural Water Association of Utah
76 Red Pine Drive
Alpine, UT 84004

COMPLIANCE

We have audited the compliance of Rural Water Association of Utah (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Rural Water Association of Utah's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Water Association of Utah's management. Our responsibility is to express an opinion on Rural Water Association of Utah's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Water Association of Utah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rural Water Association of Utah's compliance with those requirements.

In our opinion Rural Water Association of Utah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

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INTERNAL CONTROL OVER COMPLIANCE

The management of Rural Water Association of Utah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rural Water Association of Utah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. A material weakness is a significant deficiency or combination of significant deficiencies in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, and applicable governmental entities and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

January 30, 2007

RURAL WATER ASSOCIATION OF UTAH
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2006

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Rural Water Association of Utah.
2. There was one reportable condition relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Rural Water Association of Utah were disclosed during the audit.
4. There were no findings relative to the internal control over compliance with major federal awards programs.
5. The auditor's report on compliance for the major federal awards programs for Rural Water Association of Utah expresses an unqualified opinion.
6. There were no findings relative to the major federal award programs.
7. The programs tested as major programs are:
 - a. Technical Assistance and Training Grants, CFDA No. 10.761
 - b. Capitalization Grants for Drinking Water State Revolving Funds, CFDA No. 66.468
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Rural Water Association of Utah was determined to be a low risk auditee.

B. Findings – Financial Statement Audit

2006-1 Reconciliation of credit card charges

Condition: The Association allows employees to use credit cards for various expenses. The credit card charges are not being recorded and reconciled consistently throughout the year. Credit card payments are often made online and are not going through the normal expenditure approval process.

Criteria: The Association should have a policy in place to reconcile the credit cards on a monthly basis. The payment should be approved through the normal process prior to online payment.

Effect: A deficiency in the internal controls over financial reporting could adversely affect the way the Association records, processes, summarizes, and reports financial data.

Recommendation: We recommend the Association have the credit card statements pass through the regular review process and reconcile the credit accounts monthly.

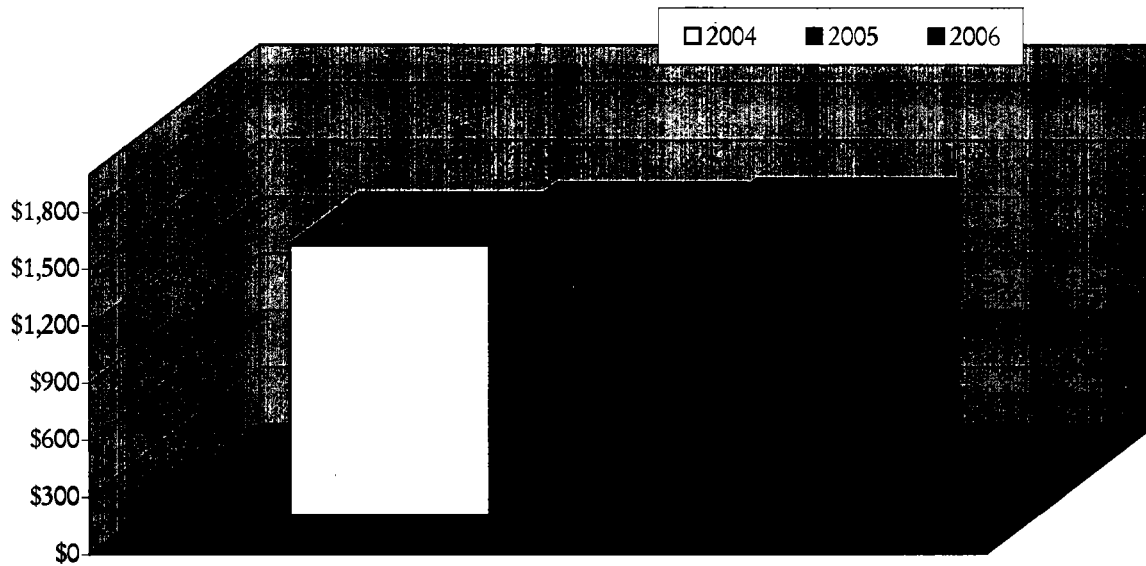
C. Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings.

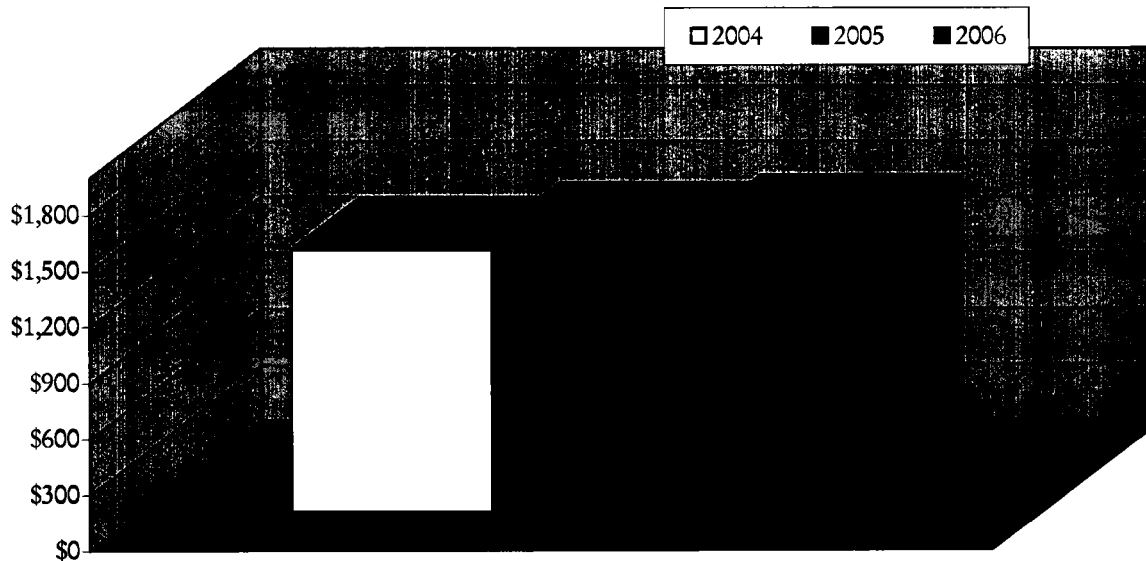
RURAL WATER ASSOCIATION OF UTAH
Schedule of Prior Audit Findings
For the Year Ended December 31, 2006

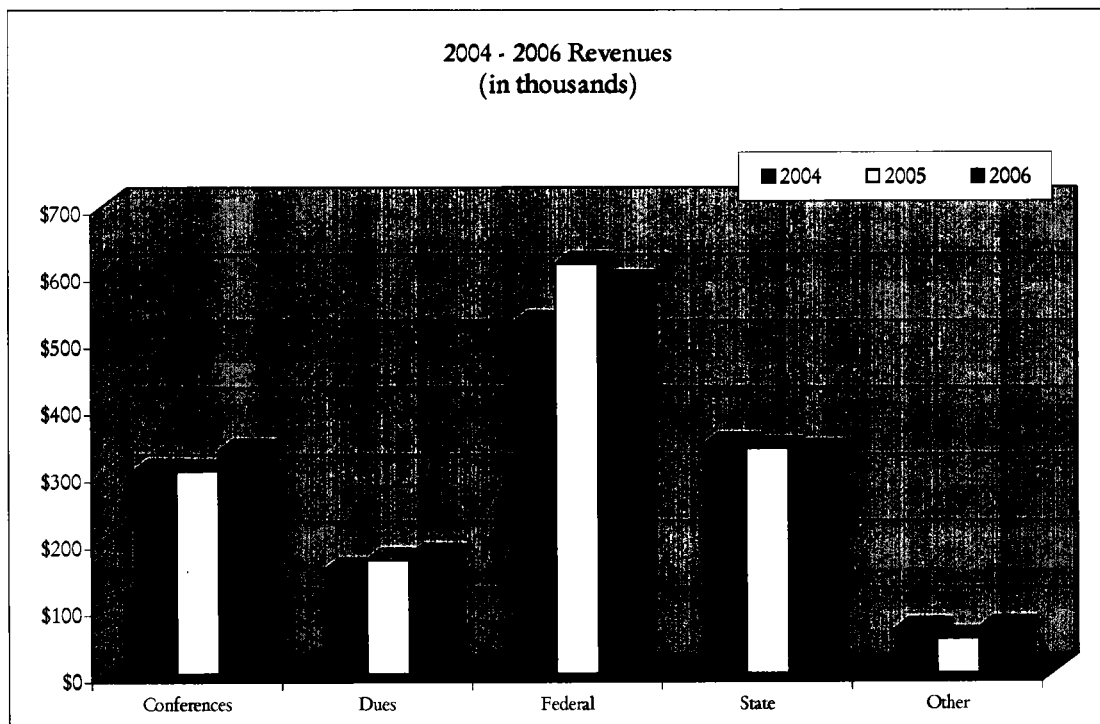
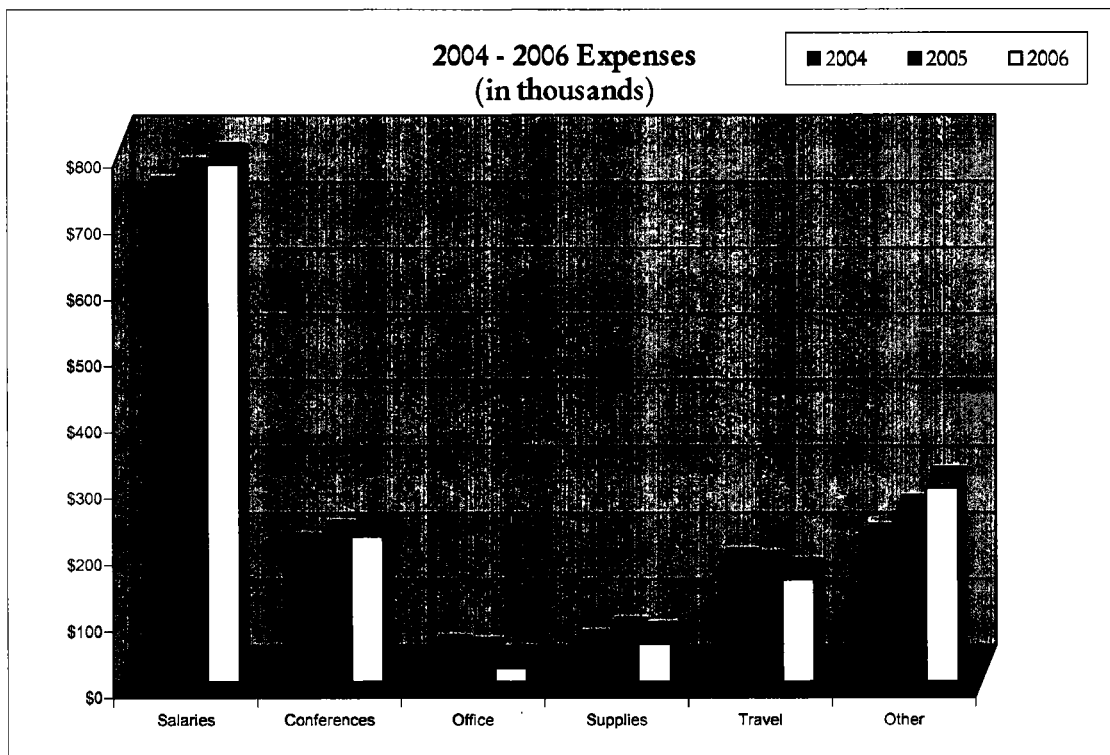
There were no prior audit findings.

2004 - 2006 Total Revenues
(in thousands)

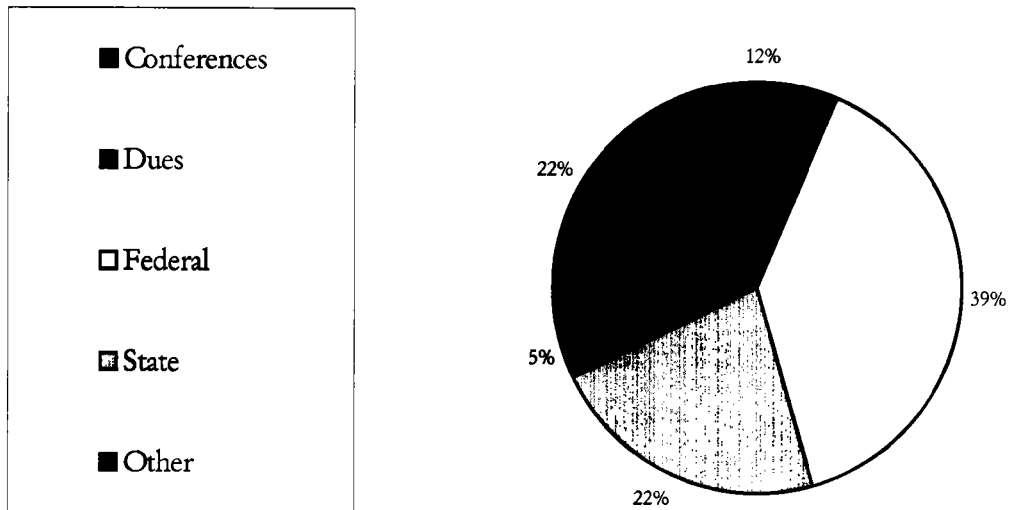


2004 - 2006 Total Expenses
(in thousands)

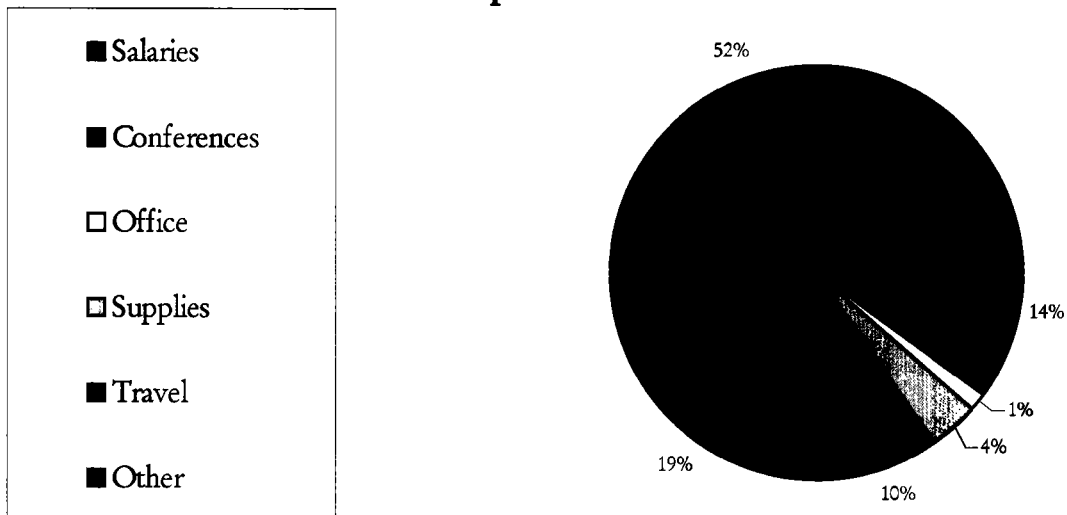




2006 Revenues Allocation



2006 Expenses Allocation



RURAL WATER ASSOCIATION OF UTAH
Corrective Action Plan
For the Year Ended December 31, 2006

Finding:

2006-1 Reconciliation of credit cards

Contact:

Vern Steel, CFO

Corrective Action Planned:

The Association will implement a policy to reconcile and record the credit card information on a monthly basis.

Anticipated Completion Date:

December 31, 2007